

Financial Statements

**West Michigan Community
Mental Health System**

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name West Michigan CMH System	County Mason
Fiscal Year End September 30, 2006	Opinion Date November 22, 2006	Date Audit Report Submitted to State March 13, 2007	

We affirm that:

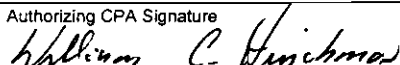
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | |
|---|---|
| <p>YES NO</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p> | <p>Check each applicable box below. (See instructions for further detail.)</p> <p>1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.</p> <p>2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.</p> <p>3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.</p> <p>4. The local unit has adopted a budget for all required funds.</p> <p>5. A public hearing on the budget was held in accordance with State statute.</p> <p>6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.</p> <p>7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.</p> <p>8. The local unit only holds deposits/investments that comply with statutory requirements.</p> <p>9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i>, as revised (see Appendix H of Bulletin).</p> <p>10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.</p> <p>11. The local unit is free of repeated comments from previous years.</p> <p>12. The audit opinion is UNQUALIFIED.</p> <p>13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).</p> <p>14. The board or council approves all invoices prior to payment as required by charter or statute.</p> <p>15. To our knowledge, bank reconciliations that were reviewed were performed timely.</p> |
|---|---|

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.		Telephone Number (989) 463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
		Zip 48801	
Authorizing CPA Signature 		Printed Name William Hirschman	License Number 1101016179

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INDEPENDENT AUDITOR'S REPORT

West Michigan Community Mental Health System
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of West Michigan Community Mental Health System (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

**West Michigan Community Mental Health System
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis**

The management of West Michigan Community Mental Health System (WMCMHS) presents the following discussion and analysis of the financial activities during the fiscal year 2005/2006. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report, our financial statements, notes to the financial statements, and supplemental information taken as a whole to get a comprehensive understanding of WMCMHS' financial position.

WMCMHS, under an affiliation agreement with Northern Lakes Community Mental Health Authority became a member of the Northwest Community Mental Health Affiliation serving a nine county region. Through this affiliation WMCMHS receives Medicaid funding from Northern Lakes, the regional Pre-paid Inpatient Health Plan (PIHP) of the affiliation that holds the Medicaid contract with MDCH. The significance of this funding arrangement and the impact on the provision of services to the residents of Lake, Mason and Oceana Counties has little noticeable impact on our service delivery system. WMCMHS continues to receive 28% of our revenue directly from MDCH and other sources for non-Medicaid services provided to Lake, Mason, and Oceana county residents.

The ongoing audit dispute with the department was finally resolved in FY06. The Department of Community Health Audit Division initially requested \$3,368,121 back from WMCMHS for compliance audit findings for FY 1998/1999 and 1999/2000. The main issues of contention were the building reserve, depreciation of capital assets, Internal Service Fund (risk reserve), and payment for a vacant residential bed. In December 2005, WMCMHS reached agreement with the Department. Through this agreement the vacant bed and depreciation issues were resolved resulting in reducing the net effect of these two issues to \$24,902 from the original \$1,064,927 payment request. The Department agreed with the establishment of the Internal Service Fund, which allowed WMCMHS to transfer the Medicaid portion of \$621,204 to the PIHP to provide a reserve for the risk associated with the Medicaid contract they hold with MDCH. WMCMHS was allowed to maintain the General Fund portion of the Internal Service Fund. The building reserve funds were returned to Michigan Department of Community Health, as West Michigan CMH no longer had a need for the funds. The net amount paid to the department as a result of the agreement was \$1,478,480. The agreement resulted in no significant effect on WMCMHS Unreserved Fund Balance.

West Michigan Community Mental Health System
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Basic Financial Statement

Government – wide financial statements consist of a Statement of Net Assets which shows the difference between assets and liabilities; and a Statement of Activities which shows revenues and expenses and the change in net assets from the previous year. Information presented in these statements is on the full accrual basis of accounting.

Fund financial statements report information using the modified accrual basis of accounting. They offer a series of statements that focus on the major governmental funds. The general fund statements identify activities of our day-to-day operations. The proprietary fund identifies funds set aside in our Internal Service Fund for risk management. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Statements.

Comparison with Prior Year

West Michigan CMH System's total net assets show a decrease for fiscal year 2005/2006 as compared to the prior year from \$6,235,294 to \$4,523,211. The major factor impacting fund balance is the DCH Audit Settlement involving the land improvement and internal service fund dollars that were included in the 2005 restricted net assets.

Net Assets

	Governmental Activities	
	2006	2005
Current and Other Assets	7,011,854	7,987,814
Capital Assets	602,580	374,534
Total Assets	7,614,434	8,362,348
Current Liabilities	2,235,898	1,475,173
Non-Current Liabilities	855,325	651,881
Total Liabilities	3,091,223	2,127,054
Net Assets:		
Invested in capital assets, net of debt	602,580	374,534
Restricted	286,557	2,749,296
Unrestricted (deficit)	3,634,074	3,111,464
Total Net Assets	4,523,211	6,235,294

West Michigan Community Mental Health System
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Analysis of Overall Financial Position

WCMCHS continues to improve our financial standing with an increase of \$385,977 to net assets prior to the audit related prior period adjustment. Medicaid revenues from our PHIP increased 22.2% as a result of statewide Medicaid rebasing. DCH General Fund, Adult Benefit Waiver and MI-Child revenues were virtually unchanged from FY 05. With the additional Medicaid revenue we were able to implement a Service Expansion Plan that employs an additional twenty direct service providers. The table below illustrates net asset activity compared with last fiscal year.

Changes in Net Assets	Governmental Activities	
	2006	2005
Revenues		
DCH	3,546,503	3,776,110
Medicaid	11,000,799	9,002,587
Grant, Contracts & Other Revenues	596,571	439,775
Local	812,336	672,005
Total Revenues	15,956,209	13,890,477
Expense		
Personnel	7,801,617	7,220,556
Capital Outlay	413,205	38,592
Other Expenses	7,558,892	6,194,128
Debt Payments - Principal	8,381	4,104
Debt Payments - Interest	13,087	8,673
Total Expense	15,795,182	13,466,053
Revenue Over/(Under) Expense	161,027	424,424
Other Financing Sources (Uses)		
Proceeds From Loans	131,000	
Proceeds From Sale of Assets	34,750	
Transfers In From Internal Service Fund	680,404	
Other Transfers In (Out)	(621,204)	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	385,977	424,424
Prior Period Adjustment	(1,453,578)	496
Increase (decrease) in Net Assets	(1,067,601)	424,920

**West Michigan Community Mental Health System
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis**

Capital Assets and Long-Term Debt

Capital Assets increased by \$131,000 with the purchase of real property in Rothbury, Michigan. The property had previously been leased by WMCMHS and run by a third party as a staffed group home. WMCMHS concluded that there was long term residential placement need for the home and to purchase the property. WMCMHS will continue to contract with the third party for operation of the home. A five-year balloon loan was entered into for the purchase of the property at an interest rate of 3.89%. The building will be depreciated over a 20-year useful life and reflected as a capital asset on the Statement of Net Assets. Monthly depreciation and interest expense will total less than previous monthly lease payments, resulting in an overall positive effect on WMCMHS future financial position. Long-term Debt was increased by \$131,000 for group home loan and reduced by principal payments of \$8,381. The remaining increase of \$282,205 to Capital Assets was the result of replacing computer equipment and vehicles.

Analysis of Transactions in Individual Funds

The DCH Audit Settlement impacted WMCMHS's proprietary fund allowing us to transfer the Medicaid portion of the Internal Service Fund (\$621,204) to the PIHP to provide a reserve for the risk associated with the Medicaid contract they hold with MDCH. WMCMHS was allowed to maintain the General Fund portion leaving a balance of \$286,557 in the Internal Service Fund.

Analysis of Significant Budget Variations

Amendments to fiscal year 2005/2006 budget indicate the increase in Medicaid funding of \$2,097,251. The original budget of \$14,467,410 was increased to \$16,205,387. The amendment consisted of several line item variations. The most significant changes were increasing salaries & wages for the additional positions associated with the service expansion and increasing other contractual for the legal fees due to the audit settlement. Actual expenditures varied from budget mainly due to lengthy recruitments and phase in of new positions resulting in returning excess Medicaid to the PIHP Internal Service Fund.

**West Michigan Community Mental Health System
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis**

Currently Known Information Affecting the Future

The State of Michigan continues to be faced with a budget shortfall. The State's financial difficulties are compounded by high unemployment rates and federal deficits reflecting the weak economic condition throughout the country. These factors all present potential future funding issues for community mental health and specialty supports and services, which makes the near term outlook very uncertain.

Revenues from the State are expected to be flat at best with no inflationary adjustments, while increases in service demands are expected in part as a result of economic factors. Another funding element of note is the State has undertaken the process to re-base the rates for Medicaid capitation payments. The rate changes are to be effective for the fiscal year beginning October 1, 2007. Depending on when this information is released, Pre-paid Inpatient Health Plans and their affiliates may need to address Medicaid funding reductions in their budget decisions for fiscal year 2007/2008.

While the financial position of the Authority is currently healthy, should significant reductions occur in our funding, WMCMHS management will analyze the services delivered, looking at alternatives where appropriate.

***GOVERNMENT-WIDE
FINANCIAL STATEMENTS***

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
Assets		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$6,207,900	\$5,569,905
Due from Other Governmental Units	215,816	95,445
Prepaid Expenses	53,258	69,056
Total Current Assets	6,476,974	5,734,406
Noncurrent Assets		
Restricted Investments	534,880	2,253,408
Capital Assets - Depreciable, Net	602,580	374,534
Total Noncurrent Assets	1,137,460	2,627,942
Total Assets	7,614,434	8,362,348
Liabilities		
Current Liabilities		
Accounts Payable	888,431	800,649
Deferred Revenue	169,143	219,992
Due to Other Governmental Units	842,040	320,750
Accrued Liabilities	133,695	11,705
Retirement Payable	76,999	13,712
Post-Employment Benefits Payable	-	3,358
Accrued Wages and Other Payroll Liabilities	116,349	100,655
Current Portion of Notes Payable	9,241	4,352
Noncurrent Liabilities		
Notes Payable	258,641	140,911
Compensated Absences	596,684	510,970
Total Liabilities	3,091,223	2,127,054
Net Assets		
Invested in Capital Assets	602,580	374,534
Restricted For:		
Risk Management	286,557	950,752
Future Capital Outlay	-	1,798,544
Specialized Health	146,194	-
Unrestricted	3,487,880	3,111,464
Total Net Assets	\$4,523,211	\$6,235,294

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2005
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$15,615,099</u>	<u>\$11,206,483</u>	<u>\$4,468,074</u>	\$59,458	\$65,037
General Revenues					
Unrestricted Investment Earnings				281,652	164,720
Restricted Investment Earnings				16,209	20,993
Gain On Disposal of Capital Assets				<u>5,380</u>	<u>-</u>
Total General Revenues and Contributions				362,699	250,750
Transfers In (Out)				<u>(621,204)</u>	<u>-</u>
Change in Net Assets				(258,505)	250,750
Net Assets - October 1				6,235,294	5,981,275
Prior Period Adjustment				<u>(1,453,578)</u>	<u>3,269</u>
Net Assets - September 30				<u>\$4,523,211</u>	<u>\$6,235,294</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Assets		
Cash and Cash Equivalents - Unrestricted	\$6,207,900	\$5,569,905
Cash and Cash Equivalents - Restricted	534,880	2,253,408
Due from Other Governmental Units	215,816	95,445
Prepaid Expenses	53,258	69,056
Total Assets	\$7,011,854	\$7,987,814
Liabilities		
Accounts Payable	\$888,431	\$800,649
Deferred Revenue	169,143	219,992
Due to Other Governmental Units	842,040	320,750
Due to Other Funds	286,557	950,752
Accrued Liabilities	133,695	11,705
Retirement Payable	76,999	13,712
Post-Employment Benefits Payable	-	3,358
Accrued Wages and Other Payroll Liabilities	116,349	100,655
Total Liabilities	2,513,214	2,421,573
Fund Balance		
Reserved for Prepaid Expenses	53,258	69,056
Reserved for Future Capital Outlay	-	1,798,544
Unreserved and Undesignated	4,445,382	3,698,641
Total Fund Balance	4,498,640	5,566,241
Total Liabilities and Fund Balance	\$7,011,854	\$7,987,814

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total fund balance - governmental funds	\$4,498,640
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	1,574,208
Deduct: accumulated depreciation	(971,628)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	286,557
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: loans payable	(267,882)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(596,684)</u>
Net assets of governmental activities	<u><u>\$4,523,211</u></u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

Revenues	General Fund	
	2006	2005
State Grants		
Department of Community Health Contract	\$3,270,756	\$3,494,925
Adult Benefit Waiver	263,365	270,248
MI Child	12,382	10,937
Title XX	4,047	4,047
RICC	3,416	2,867
Supportive Housing	45,361	5,572
Emergency Shelter	7,714	4,424
Grants - Categorical	75,068	-
Grants - Other	24,500	-
Respite Block Grant	5,762	4,016
Total State Grants	3,712,371	3,797,036
Federal Grants		
Wraparound Grant	77,829	65,715
Block Grant - DBT	75,000	-
Strong Families / Safe Children	34,370	36,208
Transportation Grant	-	15,714
TBRA	3,153	35,431
PAS / ARR Grant	83,241	84,379
Total Federal Grants	273,593	237,447
Contributions - Local Units		
County Appropriations	325,000	325,000
Charges for Services		
Medicaid - Subcontract with Northern Lakes CMH	10,840,403	8,912,940
Medicaid - Other	160,396	89,647
Client and Third Party Pay	205,684	182,285
Total Charges for Services	11,206,483	9,184,872
Interest and Rents		
Interest	281,652	164,720
Other Revenue		
Proceeds from Sale of Assets	150	19,700
Other	156,960	161,702
Total Other Revenue	157,110	181,402
Total Revenues	15,956,209	13,890,477

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

Expenditures	General Fund	
	2006	2005
Health & Welfare - Mental Health		
Personnel Costs	\$7,801,617	\$7,220,556
Operating Expenditures	7,558,892	6,194,128
Capital Outlay	413,205	38,592
Debt Payments - Principal	8,381	4,104
Debt Payments - Interest	13,087	8,673
Total Expenditures	15,795,182	13,466,053
Revenues Over (Under) Expenditures	161,027	424,424
Other Financing Sources (Uses)		
Proceeds From Loans	131,000	-
Proceeds From Sale of Assets	34,750	-
Transfers In From Internal Service Fund	680,404	-
Other Transfers In (Out)	(621,204)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	385,977	424,424
Fund Balance, October 1	5,566,241	5,141,321
Prior Period Adjustment	(1,453,578)	496
Fund Balance, September 30	<u>\$4,498,640</u>	<u>\$5,566,241</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$385,977
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures and the proceeds from loans to finance capital purchases as revenue. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and the loan proceeds are recorded as a liability.	
Add: capital outlay	413,205
Deduct: depreciation expense	(155,789)
Deduct: loan proceeds	(131,000)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: Principal paid on notes payable	8,381
Sales proceeds from the disposal of capital assets are recorded as revenue in the governmental funds. However, in the statement of activities they are netted against the basis in the disposed capital assets resulting in a gain or loss.	
Deduct: Proceeds from disposal of capital assets	(34,750)
Add: Gain on disposal of capital assets	5,380
Deduct: Transfer In From Internal Service Fund	(680,404)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income from governmental internal service fund	16,209
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	(85,714)
Change in net assets of governmental activities	<u>(\$258,505)</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006 AND 2005

	Internal Service Funds	
	2006	2005
Assets		
Due from Other Funds	<u>\$286,557</u>	<u>\$950,752</u>
Net Assets		
Restricted For Risk Management	<u>\$286,557</u>	<u>\$950,752</u>
Total Liabilities and Net Assets	<u>\$286,557</u>	<u>\$950,752</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Funds	
	2006	2005
Non-Operating Revenues (Expense)		
Interest Income	\$16,209	\$20,993
Operating Transfers		
Operating Transfers In (Out)	(680,404)	-
Change In Net Assets	(664,195)	20,993
Net Assets, Beginning of Year	950,752	929,759
Net Assets, End of Year	<u>\$286,557</u>	<u>\$950,752</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Cash Flows from Operating Activities		
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
(Increase) Decrease In:		
Due from Other Funds	\$664,195	(\$20,993)
Net Cash Provided (Used) From Operating Activities	664,195	(20,993)
Cash Flows From Noncapital Financing Activities		
Operating Transfers In (Out)	(680,404)	
Cash Flows from Investing Activities		
Interest Income	16,209	20,993
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning Of Year	-	-
Cash and Cash Equivalents, End Of Year	-	-
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of West Michigan Community Mental Health System (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the Counties of Lake, Oceana and Mason who meet eligibility and other criteria. As the community mental health services providers for these Counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

West Michigan Community Mental Health System
Notes To Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

West Michigan Community Mental Health System
Notes To Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

West Michigan Community Mental Health System
Notes To Financial Statements

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due/to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

West Michigan Community Mental Health System
Notes To Financial Statements

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

A salvage value equal to 15% of the original cost has been established for all vehicles.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20
Equipment and Furnishings	5 – 20
Computers and Software	3 – 5
Vehicles	4

Restricted Assets

Cash has been restricted for future payment of the compensated absences. These restricted assets are held in separate cash accounts with local financial institutions.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

West Michigan Community Mental Health System
Notes To Financial Statements

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Lake, Oceana and Mason Counties.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through the Northwest CMH Affiliation for Medicaid-qualified services rendered to residents of Lake, Oceana and Mason Counties. The Northwest CMH Affiliation serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Lake, Oceana and Mason Counties and they contract with the MDCH to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

B. Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

West Michigan Community Mental Health System
Notes To Financial Statements

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th, the carrying amount of the Authority's cash and cash equivalents are as follows:

Cash & Cash Equivalents	2006	2005
Petty Cash	\$565	\$565
Checking, Savings, And Money Market Accounts	537,470	857,101
Certificates of Deposit	5,669,865	4,143,420
Certificates of Deposit – Restricted	-	1,798,544
Commercial Paper	-	568,820
Municipal Investment Fund – Restricted	534,880	454,863
Totals	\$6,742,780	\$7,823,313

Restricted Cash and Cash Equivalents

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30th. The municipal investment fund in the amount of \$534,880 is restricted to payment of compensated absences as they come due.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$6,774,340 of the Authority's \$7,174,340 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits.

As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

West Michigan Community Mental Health System
Notes To Financial Statements

Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of the end of the current year, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

West Michigan Community Mental Health System
Notes To Financial Statements

The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Interfund Receivables and Payables

Interfund receivables and payables as of September 30th, are as follows:

Fund	Due From	Due To
General Fund	-	\$286,557
Internal Service	\$286,557	-

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From	2006	2005
State of Michigan – Medicaid	\$90,633	\$54,441
State of Michigan – OBRA	24,054	3,797
State of Michigan – DBT System of Care	31,317	-
State of Michigan – FIA	-	3,710
State of Michigan – Wraparound	28,061	20,578
State of Michigan – Tenant Based Housing Assist. Grant	-	3,162
State of Michigan – Respite	2,933	2,160
Emergency Shelter Grant	4,138	860
Supportive Housing	9,791	3,229
Mason & Lake ISD	3,283	3,508
Other	21,606	-
Totals	\$215,816	\$95,445

West Michigan Community Mental Health System
Notes To Financial Statements

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	2006	2005
Insurance	\$35,923	\$53,952
Dues	9,001	6,771
Rent	8,334	8,333
Totals	\$53,258	\$69,056

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$150,000	\$131,000	-	\$281,000
Equipment and Furnishings	372,004	31,196	(\$13,995)	389,205
Computers and Software	319,291	-	(22,125)	297,166
Vehicles	551,560	251,009	(195,732)	606,837
Sub-total	1,392,855	413,205	(231,852)	1,574,208
Accumulated Depreciation	(1,018,321)	(147,528)	194,221	(971,628)
Totals	\$374,534	\$265,677	(\$37,631)	\$602,580

Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community health's authorization as well as other revenues received in advance of the period earned as follows:

Deferred Revenue	2006	2005
General Fund Carry Forward	\$169,143	\$197,492
Other	-	22,500
Totals	\$169,143	\$219,992

West Michigan Community Mental Health System
Notes To Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To	2006	2005
State of Michigan – Inpatient/Residential	\$115,931	\$60,599
State of Michigan – Employment Security Comm.	-	39,554
State of Michigan – DCH, Cost Settlement	115,543	-
Due to PHP	565,677	153,239
Community Inpatient & Crisis Residential	44,889	46,923
Muskegon County CMH	-	17,566
Other	-	2,869
Totals	\$842,040	\$320,750

Accrued Liabilities

This liability represents state and federal income taxes and other amounts withheld from paychecks prior to year end but not remitted until after year end.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Retirement Payable

This liability represents amounts due to the retirement system based on wages earned as of September 30th of each year.

West Michigan Community Mental Health System
Notes To Financial Statements

Operating Leases

West Michigan Community Mental Health System has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

The following is a schedule of the future minimum lease payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2006:

Year Ending September 30 th	Amount
2007	\$160,648
2008	116,146
2009	100,000
2010	100,000
2011	100,000
Thereafter	200,000

Long-Term Debt

Compensated Absences

The Authority's policy allows employee's to accumulate paid time off pay and to carry this accumulation into the future. The paid time off pay that was earned but not yet paid as of September 30, 2006 and 2005 was \$596,684 and \$510,970, respectively.

Mortgage Payable

On July 13, 2004 the Authority borrowed \$150,000 to finance the purchase of a building. The terms of the loan calls for 119 monthly payments of \$1,065 and a final payment of \$97,459 on July 13, 2014. The interest rate is stated at 5.8%.

Mortgage Payable

On October 13, 2005 the Authority borrowed \$131,000 to finance the purchase of a building. The terms of the loan calls for 59 monthly payments of \$790 and a final payment of \$107,997 on October 13, 2010. The interest rate is stated at 3.89%.

West Michigan Community Mental Health System
Notes To Financial Statements

The changes in the long-term debt are as follows:

Description of Debt	Beginning Balance	Additions	Reductions	Ending Balance
Mortgage Payable	\$145,263	-	\$4,351	\$140,912
Mortgage Payable	-	\$131,000	4,030	126,970
Totals	\$145,263	\$131,00	\$8,381	\$267,882

The annual payment of principle and interest for the next five years (including interest of \$86,930) is as follows:

Year Ended September 30 th ,	Principle and Interest Due
2007	\$22,259
2008	22,259
2009	22,259
2010	22,259
2011	120,403
2012 – 2016	145,373

Prior Period Adjustments

Prior period adjustments shown in the fund level financial statements in this report represent the adjustment to fund balance due to the following:

Adjustment	2006	2005
Cost Settlement Adjustment – 9/04	-	\$496
DCH Audit Settlement	(\$1,453,578)	-
Total Increase (Decrease) To Fund Balance	(\$1,453,578)	\$496

Prior period adjustments shown in the government-wide level financial statements in this report represent the adjustment to net assets due to the following:

Adjustment	2006	2005
Adjustment to fixed assets	-	\$2773
Cost Settlement Adjustment – 9/04	-	496
DCH Audit Settlement	(\$1,453,578)	-
Total Increase (Decrease) To Fund Balance	(\$1,453,578)	\$3,269

West Michigan Community Mental Health System
Notes To Financial Statements

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

NOTE 4. OTHER INFORMATION

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Retirement Systems

MERS – Defined Benefit Plan

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ending December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

West Michigan Community Mental Health System
Notes To Financial Statements

The following table presents information required by GASB Statements Number 25 and 27.

GASB 25 INFORMATION	
<i>Actuarial Accrued Liability:</i>	
Retirees and Beneficiaries Currently Receiving Benefits	\$2,195,277
Terminated Employees Not Yet Receiving Benefits	304,788
Non-Vested Terminated Employees	29,868
Current Employees:	
Accumulated Employee Contributions Including Allocated Investment Income	118,385
Employer Financed	1,461,333
Total Actuarial Accrued Liability	4,109,651
Net Assets Available for Benefits at Actuarial Value (market value \$4,411,329)	4,530,717
Unfunded (Overfunded) Actuarial Accrued Liability	(\$421,066)
GASB 27 INFORMATION	
Fiscal Year Beginning	10/01/07
Annual Required Contributions (ARC)	0
Amortization Factor Used – Underfunded Liabilities (22 years)	0.065308
Amortization Factor Used – Underfunded Liabilities (10 years)	0.119963
Amortization Factor Used – Underfunded Liabilities (30 year level)	0.085453
Amortization Factor Used – Overfunded Liabilities (10 years)	.0119963

Three year trend information as of December 31st is shown below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
2004	\$4,467,634	\$3,911,807	(\$555,827)	0
2003	4,395,004	3,832,779	(\$562,225)	0
2002	4,272,935	3,727,325	(545,610)	0

MERS – Defined Contribution Plan

The Authority entered into an administrative service agreement between The International City Management Association Retirement Corporation ("ICMA") and MERS on December 22, 1998. MERS has entered into an Alliance Agreement with ICMA providing for ICMA to serve as plan administrator for the defined contribution plans of municipalities participating in MERS.

West Michigan Community Mental Health System
Notes To Financial Statements

The ICMA Retirement Trust (the "Trust") is a common law trust governed by an elected Board of Trustees for the commingled investments of retirement funds held by state and local governmental units for their employees. The ICMA acts as investment advisor to the Trust and has designed, and offers, a series of separate funds for the investment of plan assets.

In fiscal year 2006, this plan was reconfigured to contain both the defined contribution money purchase plan for which it had been originally designed as well as the money purchase plan in lieu of Social Security that previously was administered by VALIC.

This combined plan allows for one year vesting for all participating employees. Employer contributions are 9% of employee wages for the pension portion. All employees who contribute to the plan receive an additional employer match of 2% of employee wages. Employer contributions to the Trust for the year ended September 30, 2006 and 2005 were \$590,638 and \$482,937, respectively.

For the portion of the plan in lieu of Social Security all employees can be eligible to receive Employer contributions (including nonelective contributions) under the Plan except the following: employees covered by social security, board of directors, substitute employees, leased employees, and individuals not on the payroll who are classified as independent contractors. There are no age requirements.

The Authority will make contributions to the Plan equal to 5 percent of compensation (not in excess of the Social Security Taxable Wage Base). The contributions to the plan for the year ended September 30, 2006 and 2005 were \$275,484 and \$257,527, respectively.

Additional information can be obtained by writing to: Executive Director, West Michigan Community Mental Health System, 920 Diana Street, Ludington, Michigan, 49431.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and approximately \$3,500,000 for buildings and personal property. The annual premium paid for the period of January 1, 2006 to January 1, 2007 was \$106,311.

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State Grants				
Department of Community Health Contract	\$3,618,830	\$3,273,830	\$3,270,756	(\$3,074)
Adult Benefit Waiver	276,070	276,070	263,365	(12,705)
MI Child	10,702	10,702	12,382	1,680
Title XX	-	-	4,047	4,047
RICC	3,000	3,000	3,416	416
Supportive Housing	15,600	26,512	45,361	18,849
Emergency Shelter	8,000	8,000	7,714	(286)
Grants - Categorical	72,500	72,500	75,068	2,568
Grants - Other	22,500	22,500	24,500	2,000
Respite Block Grant	-	-	5,762	5,762
Total State Grants	4,027,202	3,693,114	3,712,371	19,257
Federal Grants				
Wraparound Grant	87,467	87,467	77,829	(9,638)
Block Grant - DBT	75,000	75,000	75,000	-
Strong Families / Safe Children	34,434	34,434	34,370	(64)
TBRA	28,800	3,600	3,153	(447)
PAS / ARR Grant	95,702	95,702	83,241	(12,461)
Total Federal Grants	321,403	296,203	273,593	(22,610)
Contributions - Local Units				
County Appropriations	325,000	325,000	325,000	-
Charges for Services				
Medicaid - Subcontract with North Central CMH	9,320,889	11,382,987	10,840,403	(542,584)
Medicaid - Other	70,000	105,153	160,396	55,243
Client and Third Party Pay	169,247	169,247	205,684	36,437
Total Charges for Services	9,560,136	11,657,387	11,206,483	(450,904)
Interest and Rents				
Interest	102,178	102,178	281,652	179,474
Other Revenue				
Proceeds from Sale of Assets	20,000	20,000	150	(19,850)
Other	111,506	111,506	156,960	45,454
Total Other Revenue	131,506	131,506	157,110	25,604
Total Revenues	14,467,425	16,205,388	15,956,209	(249,179)

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel Costs	\$8,082,174	\$8,590,821	\$7,801,617	\$789,204
Operating Expenditures	6,367,864	7,597,194	7,558,892	38,302
Capital Outlay	166,032	294,632	413,205	(118,573)
Debt Payments - Principal	7,786	7,786	8,381	(595)
Debt Payments - Interest	17,373	17,373	13,087	4,286
	<u>14,641,229</u>	<u>16,507,806</u>	<u>15,795,182</u>	<u>712,624</u>
Revenues Over (Under) Expenditures	(173,804)	(302,418)	161,027	463,445
Other Financing Sources (Uses)				
Proceeds From Loans	-	-	131,000	131,000
Proceeds From Sale of Assets	-	-	34,750	34,750
Transfers In From Internal Service Fund	-	-	680,404	680,404
Other Transfers In (Out)	-	(621,204)	(621,204)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(173,804)	(923,622)	385,977	1,309,599
Fund Balance, October 1	5,145,022	4,971,218	5,566,241	595,023
Prior Period Adjustment	-	-	(1,453,578)	(1,453,578)
Fund Balance, September 30	<u>\$4,971,218</u>	<u>\$4,047,596</u>	<u>\$4,498,640</u>	<u>\$451,044</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

Governmental Fund Types

	<u>General Fund</u>	
	<u>2006</u>	<u>2005</u>
Personnel Costs		
Salaries And Wages	\$5,591,942	\$5,192,961
Fringe Benefits	<u>2,209,675</u>	<u>2,027,595</u>
Total Personnel Costs	<u><u>\$7,801,617</u></u>	<u><u>\$7,220,556</u></u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	
	<u>2006</u>	<u>2005</u>
Operating Expenditures		
Supplies	\$151,515	\$128,141
Building Rent	217,170	213,017
Utilities	157,473	151,294
Repairs and Maintenance	248,454	240,844
Insurance	156,119	201,603
Marketing / Membership	45,486	47,157
Professional Contracts	563,439	339,703
Contractual Services	3,751,771	3,553,480
Other Contractual	419,701	114,278
Board Expenses	8,722	8,393
Consumer Panel	5,132	3,043
Travel and Conferences	246,703	178,607
Client Transportation	99,344	99,345
Client and Other Wages	49,334	45,374
Client Support	59,457	70,822
State Provided Services	1,015,102	601,294
Capital Outlay (Under \$5,000)	280,214	144,520
Miscellaneous	55,954	44,331
Wraparound and Respite	27,802	8,882
Total Operating Expenditures	<u>\$7,558,892</u>	<u>\$6,194,128</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

West Michigan Community Mental Health System
Ludington, Michigan

We have audited the financial statements of the governmental activities and each major fund of West Michigan Community Mental Health System (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

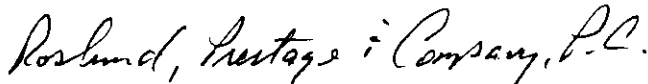
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving the internal control over financial reporting that we have reported to management of the Authority, in a separate letter dated November 22, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006



MANAGEMENT LETTER

Board of Directors
West Michigan Community Mental Health System
Ludington, Michigan

In planning and performing our audit of the financial statements for West Michigan Community Mental Health System for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 22, 2006 on the financial statements of West Michigan Community Mental Health System.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006

West Michigan Community Mental Health System
Management Letter

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Review Vendor Lists

We recommend that management periodically review vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, the person periodically should inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and not customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor. Such a review can detect possible fraud involving accounts payable.

If the validity of a vendor is questioned, an appropriate person should take steps to verify the vendor's existence. Perhaps the most effective way to verify a vendor is to call the vendor and visit the vendor's facilities.

Alternatively, an appropriate person can consult other information sources, such as the Better Business Bureau, credit reporting companies (such as Dun & Bradstreet), crisscross and telephone directories, secretary of state incorporation records, or local partnership and assumed name records.